

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Unit Name Genesee County Road Commission	County Genesee
Fiscal Year End 09/30/07	Opinion Date 03/28/08	Date Audit Report Submitted to State March 31, 2008	

We affirm that:

We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

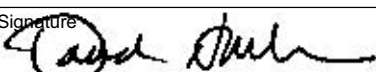
YES
NO

Check each applicable box below. (See instructions for further detail.)

1. ☒ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. ☒ ☐ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. ☒ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. ☒ ☐ The local unit has adopted a budget for all required funds.
5. ☒ ☐ A public hearing on the budget was held in accordance with State statute.
6. ☒ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. ☒ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. ☒ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
9. ☒ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. ☒ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. ☐ ☒ The local unit is free of repeated comments from previous years.
12. ☒ ☐ The audit opinion is UNQUALIFIED.
13. ☒ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. ☒ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
15. ☐ ☒ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

We have enclosed the following:	Enclosed	Not Required (enter a brief justification)		
Financial Statements	<input checked="" type="checkbox"/>			
The letter of Comments and Recommendations	<input checked="" type="checkbox"/>			
Other (Describe) SAS 61 letters	<input checked="" type="checkbox"/>			
Certified Public Accountant (Firm Name) Plante & Moran, PLLC		Telephone Number 810-767-5350		
Street Address 111 E. Court Street, Suite 1A		City Flint	State MI	Zip 48502
Authorizing CPA Signature 		Printed Name Tadd Harburn		License Number 1101014134

**Genesee County Road Commission
Flint, Michigan**

Financial Report with Supplemental Information

September 30, 2007

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Independent Auditors' Report

Board of Road Commissioners
for the County of Genesee
Flint, Michigan

We have audited the accompanying financial statements of the governmental activities and the major fund of the Road Commission for the County of Genesee, a component unit of Genesee County, as of September 30, 2007 and for the year then ended, which collectively comprise the Road Commission's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Road Commission's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the component unit financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall component unit financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities, and the major fund of the Road Commission for the County of Genesee, as of September 30, 2007, and the respective changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis and the budgetary comparison schedules as identified in the table of contents, are not a required part of the basic financial statements but are supplemental information required by the Governmental Accounting Standards Board. We have applied limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplemental information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Road Commission's basic financial statements. The accompanying other supplemental information, as identified in the table of contents, is presented for purposes of additional analysis and is not a required part of the basic financial statements. The other supplemental information has been subjected to auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects to the basic financial statements taken as a whole.

In accordance with Government Auditing Standards, we have also issued our report dated March 28, 2008 on our consideration of the Genesee County Road Commission's internal control over financial reporting and on our test of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

A handwritten signature in cursive script that reads "Plante & Moran, PLLC".

March 28, 2008

Management Discussion and Analysis

**Genesee County Road Commission
Management Discussion and Analysis
September 30, 2007**

Our discussion and analysis of Genesee County Road Commission's financial performance provides an overview of the Road Commission's financial activities for the calendar year ended September 30, 2007. This annual report consists of a series of financial statements. The Statement of Net Assets and the Statement of Activities provide information about the activities of the Road Commission and present a long-term view of the Road Commission's finances. Fund statements tell how these services were financed in the short-term, as well as what remains for future spending. Fund financial statements also report the Road Commission's operations in more detail than the government-wide financial statements.

Overview of the Financial Statements

This annual report consists of four parts – management's discussion and analysis (this section), the basic financial statements, required supplementary information, and an additional section that presents the operating fund broken down between primary, local and county funds. The basic financial statements include two kinds of statements that present different views of the Road Commission:

- The first two statements are government-wide financial statements that provide both long-term and short-term information about the Road Commission's overall financial status. These statements report information about the Road Commission as a whole using accounting methods similar to those used by private-sector companies. The Statement of Net Assets includes all of the government's assets and liabilities. All of the current year's revenues and expenses are accounted for in the Statement of Activities regardless of when cash is received or paid. The two government-wide statements report the Road Commission's net assets and how they have changed. "Net assets" is the difference between the assets and liabilities – this is one way to measure the Road Commission's financial health or position.
- The remaining statements are fund financial statements that focus on individual funds; reporting the operations in more detail than the government-wide statements.

Reporting the Commission as a Whole

Government-Wide Statements

The Statement of Net Assets and the Statement of Activities report information about the Road Commission, as a whole and about its activities in a way that helps answer the question of whether the Road Commission, as a whole, is better off or worse off as a result of the year's activities. The Statement of Net Assets includes all of the Road Commission's assets and liabilities using the accrual basis of accounting, which is similar to the accounting method used by most private-sector companies. All of the current year's revenues and expenses are accounted for in the Statement of Activities regardless of when cash is received or paid.

The two statements, mentioned above, report the Road Commission's net assets and the changes in them. The reader can think of the Road Commission's net assets (the difference between assets and liabilities) as one way to measure the Road Commission's financial health or financial position. Over time, increases or decreases in the Road Commission's net assets are one indicator of whether its financial health is improving or deteriorating, respectively. To assess the overall health of the Road Commission, additional non-financial factors such as changes in the County's property tax base, the condition of the Road Commission's roads, and changes in the law related to the gas taxes and its distribution need to be considered.

Fund Financial Statements

The Road Commission currently has only one fund, the General Operating Fund. All of the Road Commission's activities are accounted for in this fund. The General Operating Fund is a governmental fund type.

Governmental funds focus on how money flows into and out of this fund and the balances left at year end that are available for spending. This fund is reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the Road Commission's general governmental operations and the basic service it provides. Governmental fund information helps the reader to determine whether there are more or fewer financial resources that can be spent in the near future to finance the Road Commission's services. We describe the relationship (or differences) between governmental activities (reported in the Statement of Net Assets and the Statement of Activities) and the governmental fund in a reconciliation following the fund financial statements.

Financial Analysis of the Road Commission as a Whole

The Road Commission's net assets increased approximately 5.9% or \$10,920,524, from \$185,061,038 to \$195,981,562 for the year ended September 30, 2007. The net assets and change in net assets are summarized below.

Net Assets

Restricted net assets are those net assets that have constraints placed on them by either: a) externally imposed by creditors, grantors, contributors, or laws or regulations of other governments; or b) imposed by law through constitutional provisions or enabling legislation. Enabling legislation authorizes the government to assess, levy, charge, or otherwise mandate payment of resources and includes a legally enforceable requirement that those resources be used only for the specific purpose stipulated in the legislation. As such, all assets (exclusive of assets invested in capital assets, net of related debt) are considered unrestricted and available for the main purpose of the Road Commission which is to maintain and construct roads.

The investment in capital assets net of related debt increased by \$4,435,694. The increase in net assets is primarily the result of recording the \$19,882,276 of infrastructure improvements and \$3,911,486 of road equipment purchases made during the year less depreciation on capital assets.

Net Assets

	<u>Governmental Activities</u>	
	<u>2007</u>	<u>2006</u>
Assets		
Current and other assets	\$ 72,548,781	\$ 66,190,667
Capital assets	<u>138,069,349</u>	<u>127,339,381</u>
Total assets	<u>210,618,130</u>	<u>193,530,048</u>
Liabilities		
Long-term debt outstanding	7,532,542	1,840,753
Other liabilities	<u>7,104,026</u>	<u>6,628,257</u>
Total liabilities	<u>14,636,568</u>	<u>8,469,010</u>
Net assets		
Invested in capital assets	129,013,595	124,577,901
Unrestricted	<u>66,967,967</u>	<u>60,483,137</u>
Total net assets	<u>\$195,981,562</u>	<u>\$185,061,038</u>

Changes in Net Assets

	<u>2007</u>	<u>2006</u>
Program Revenues		
Charges for services	\$ 6,607,919	\$ 5,243,261
Capital grants	9,598,855	7,665,081
Operating grants and donations	24,337,261	26,837,195
General Revenues		
Interest Income	2,731,575	2,274,568
Miscellaneous	1,051,160	597,779
Gain on sale of capital assets	<u>256,145</u>	<u>137,727</u>
Total revenues	<u>44,582,915</u>	<u>42,755,611</u>
Expenses		
Maintenance	27,170,912	26,653,104
Equipment (net)	2,121,889	2,057,383
Administrative	3,187,572	3,050,192
Other	976,510	664,600
Interest	<u>205,508</u>	<u>152,054</u>
Total expenses	<u>33,662,391</u>	<u>32,577,333</u>
Change in Net Assets	<u>\$10,920,524</u>	<u>\$10,178,278</u>

Road Fund Highlights

The Road Commission's General Operating Fund is used to control the expenditures of Michigan Transportation Fund monies distributed to the County which are earmarked by law for road and highway purposes.

For the year ended September 30, 2007, the fund balance of the General Operating Fund increased \$5,019,075 as compared to an increase of \$439,436 in the fund balance for the year ended September 30, 2006. Total revenues were \$43,079,225, an increase of \$1,312,625 as compared to the previous year. Total expenditures were \$45,485,150, an increase of \$4,146,169 as compared to the previous year. This change in expenditures is due primarily to projects that were delayed during 2006 and resumed during 2007.

Budgetary Highlights

Genesee County Road Commission's budget is a dynamic document. Prior to the beginning of any year, the Road Commission's budget is compiled based upon certain assumptions and facts available at that time. During the year, the Road Commission Board acts to amend its budget to reflect changes in these original assumptions, facts and/or economic conditions that were unknown at the time the original budget was compiled. In addition, the board reviews and authorizes large expenditures when requested throughout the year.

The final amended revenue budget for 2007 was \$56,244,895, lower than the original budget primarily due to projections for federal and state funded road projects that were delayed for various reasons. The actual revenue recognized during 2007 was less than the final amended budget by \$204,598.

The final amended expenditure budget for 2007 was \$53,324,034, which was lower than the original budget primarily due to projections for federal and state funded road projects that were delayed for various reasons and cost-saving measures that were implemented throughout the year. The actual expenditures recognized during 2007 were less than the final amended budget by \$2,302,812. There were no unfavorable variances in any expenditure line-items.

Capital Asset and Debt Administration

Capital Assets

As of September 30, 2007, the Road Commission had \$138,069,349 invested in capital assets as follows:

	<u>2007</u>	<u>2006</u>
Land and improvements	\$ 1,479,478	\$ 1,068,581
Buildings and improvements	8,201,013	7,963,684
Road equipment	21,139,482	19,166,176
Other equipment	2,401,596	2,333,373
Infrastructure	284,514,150	264,631,874
Construction in progress	502,998	2,112,683
Depletable assets	<u>1,210</u>	<u>1,210</u>
Total capital assets	318,239,927	297,277,581
Accumulated depreciation	<u>(180,170,578)</u>	<u>(169,938,201)</u>
Net capital assets	<u>\$ 138,069,349</u>	<u>\$ 127,339,380</u>

Current year's major additions included the following:

Road equipment	\$ 3,911,486
Infrastructure - roads	19,882,276

Debt Highlights

At the year end, the Road Commission had \$9,055,754 in bonds and installment purchase agreements versus \$2,761,480 in the previous year, a increase of 228%.

New debt in the amount of \$7,425,000 was issued during 2007. The Road Commission paid off one bond agreement during 2007.

Other obligations include accrued vacation pay and sick leave. More detailed information about the Road Commission's long-term liabilities is presented in notes to the financial statements.

Economic Factors and Next Year's Budget

The Board of County Road Commissioners considered many factors when setting the fiscal year 2007 budget. One of the factors is the economy. Unfavorable economic conditions may continue to affect crude oil prices, which impact the Road Commission's cost of fuel as well as material costs for maintenance projects. The Road Commission derives approximately 40% of its revenues from the fuel tax collected. Using Michigan Department of Transportation projections, it is estimated that the Road Commission will receive 3.0% less in 2008 compared to 2007. Continued reductions in revenue sharing will directly affect local units of government. This will, in turn, affect the amount of funds local units will have available to participate in road projects.

The board realizes, and the reader should understand, that there are not sufficient funds available to repair and/or rebuild every road in Genesee County's transportation system. Therefore, the board attempts to spend the public's money wisely and equitably, and in the best interest of the motoring public and the citizens of Genesee County.

Contacting the Road Commission's Financial Management

This financial report is designed to provide the motoring public, citizens and other interested parties a general overview of the Road Commission's finances and to show the Road Commission's accountability for the money it receives. If you have any questions about this report or need additional financial information, contact the Director of Finance, Genesee County Road Commission, at 211 W. Oakley St., Flint, Michigan 48503 or visit us on the Internet at www.gcrc.org.

Government-wide Financial Statements

**Genesee County Road Commission
Statement of Net Assets
September 30, 2007**

Assets

Cash and cash equivalents	\$ 48,489,524
Receivables:	
Accounts	485,651
Bond proceeds	4,392,904
Special assessments:	
Regular	7,252,203
Special projects	2,692,581
Due from other governments:	
Michigan Transportation Fund	3,806,242
State trunkline maintenance	263,550
State Transportation Department - Other	1,077,792
Township road agreements	1,134,238
Other	7,904
Inventory:	
Road materials	842,573
Equipment materials	198,729
Surplus property	162
Prepaid items	1,205,234
Restricted cash and cash equivalents - Escrow	699,494
Capital assets not being depreciated	983,024
Capital assets (net of accumulated depreciation)	<u>137,086,325</u>
 Total assets	 <u>210,618,130</u>

Liabilities

Accounts payable	2,203,341
Other accrued liabilities	608,870
Payable from restricted assets:	
Deposits - Escrow	699,494
Advances - State of Michigan	1,064,098
- Other	538,749
Due to other governments	41,769
Noncurrent liabilities:	
Bonds payable - Due within one year	1,450,000
Installment purchase agreements payable - Due within one year	73,212
Compensated absences - Due within one year	424,493
Bonds payable - Due in more than one year	7,300,000
Installment purchase agreements payable - Due in more than one year	<u>232,542</u>
 Total liabilities	 <u>14,636,568</u>

Net Assets

Invested in capital assets (net of related debt)	129,013,595
Unrestricted	<u>66,967,967</u>
 Total net assets	 <u><u>\$ 195,981,562</u></u>

The Notes to Financial Statements are an Integral Part of this Statement.

**Genesee County Road Commission
Statement of Activities
For the Year Ended September 30, 2007**

Program Expenses

Primary road maintenance	\$ 13,439,953
Local road maintenance	9,339,377
State trunkline	4,391,582
Equipment expense - Net	2,121,889
Administrative expense - Net	3,187,572
Other	976,510
Interest on long-term debt	205,508

Total program expenses	33,662,391
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Program Revenues

Capital grants:	
Federal grants	5,721,881
State grants- Urban roads	3,876,974
Operating grants and donations:	
State allocation	20,151,223
Contributions from local government	4,186,038
Contributions from primary government	-
Charges for services	6,607,919

Total program revenues	40,544,035
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Net program revenues	6,881,644
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General Revenues

Investment earnings	2,731,575
Miscellaneous	1,051,160
Gain on sale of capital assets	256,145

Total general revenues	4,038,880
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Change in net assets	10,920,524
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Net assets:

Beginning of year	185,061,038
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End of Year	\$ 195,981,562
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Fund Financial Statements

**Genesee County Road Commission
Balance Sheet
Governmental Fund- General Operating Fund
September 30, 2007**

Assets

Cash and cash equivalents	\$ 48,489,524
Receivables:	
Accounts	485,651
Bond proceeds	4,392,904
Special assessments:	
Regular	7,252,203
Special projects	2,692,581
Due from other governments:	
Michigan Transportation Fund	3,806,242
State trunkline maintenance	263,550
State Transportation Department - Other	1,077,792
Township road agreements	1,134,238
Other	7,904
Inventory:	
Road materials	842,573
Equipment materials	198,729
Surplus property	162
Prepaid items	1,205,234
Restricted cash and cash equivalents - Escrow	699,494
	<hr/>
Total assets	<u><u>\$ 72,548,781</u></u>

The Notes to Financial Statements are an Integral Part of this Statement.

Liabilities

Accounts payable	\$ 2,203,341
Other accrued liabilities	608,871
Payable from restricted assets:	
Deposits - Escrow	699,494
Advances - State of Michigan	1,064,098
- Other	538,749
Due to other governments	41,769
Deferred revenue -	
Special assessments and other	<u>9,945,430</u>
Total liabilities	<u>15,101,752</u>

Fund balance

Fund balance:	
Reserved:	
Prepaid items	1,205,234
Inventory	1,041,464
Unreserved:	
Designated for:	
Claims and related expenses	310,843
Road expenditures	<u>54,889,488</u>
Total fund balance	<u>57,447,029</u>
Total liabilities and fund balance	<u><u>\$ 72,548,781</u></u>

Amounts reported for governmental activities in the statement
of net assets are different because:

Fund balance reported- Governmental Fund	\$ 57,447,029
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds	138,069,349
Other long-term assets are not available to pay for current-period expenditures and, therefore, are deferred in the funds	9,945,430
Accrued liabilities	(424,492)
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds	<u>(9,055,754)</u>
Net assets of governmental activities	<u><u>\$ 195,981,562</u></u>

Genesee County Road Commission
General Fund
Statement of Revenues, Expenditures, and Changes in Fund Balance
For the Year Ended September 30, 2007

Revenues	
Permits	\$ 86,509
Intergovernmental:	
Federal sources	5,721,881
State sources	24,028,197
Local sources	4,186,038
Charges for services	5,017,720
Interest and rents	2,731,575
Other	<u>1,307,305</u>
Total revenues	<u>43,079,225</u>
Expenditures	
Current:	
Construction	444,085
Heavy maintenance	19,488,653
Maintenance	13,464,415
State trunkline	4,391,582
Equipment - Net	2,099,406
Administrative	3,102,089
Other	976,510
Capital outlay - Net	182,176
Debt service	<u>1,336,234</u>
Total expenditures	<u>45,485,150</u>
Excess of expenditures over revenues	(2,405,925)
Other Financing Sources	
Proceeds from bond issue	<u>7,425,000</u>
Excess of revenues and other sources over expenditures	5,019,075
Fund Balance - Beginning of year	<u>52,427,954</u>
Fund Balance - End of year	<u><u>\$ 57,447,029</u></u>

The Notes to Financial Statements are an Integral Part of this Statement.

**Genesee County Road Commission
Reconciliation of the Statement of Revenues,
Expenditures, and Changes in Fund Balances of Governmental Funds
For the Year Ended September 30, 2007**

Amounts reported for governmental activities in the statement of activities (page 8) are different because:

Net change in fund balances - Total governmental funds (page 11)	\$ 5,019,075
Governmental funds report capital outlays as expenditures. However, in the statement of activities the costs of those assets are allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period.	
Capital assets	22,911,151
Depreciation	(12,175,676)
Deletions	(5,506)
The effect of expenses for accrued expenses	(37,936)
The effect of revenues on the modified accrual basis in the combined statement of revenues that do not provide current financial resources.	1,503,690
The issuance of long-term debt (e.g. bonds, leases) provides current financial resources to the governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of the governmental funds. Neither transaction, however, has any effect on net assets.	(7,425,000)
This amount is the net effect of these differences in the treatment of long-term debt and related items.	<u>1,130,726</u>
Change in net assets of governmental activities (page 8)	<u><u>\$ 10,920,524</u></u>

Notes to Financial Statements

Genesee County Road Commission
Notes to Financial Statements
September 30, 2007

I. Summary of Significant Accounting Policies

The accounting policies of the Genesee County Road Commission conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The following is a summary of the significant accounting policies used by the Road Commission:

A. Reporting entity

The Road Commission, which is established pursuant to the County Road Law (MCL 224.1), is governed by a 5 member Board of County Road Commissioners appointed by the Genesee County Board of Commissioners. The Road Commission may not issue debt without the Genesee County's approval and property tax levies are subject to County Board of Commissioners' approval.

The criteria established by the Governmental Accounting Standards Board (GASB) Statement No. 14, "The Financial Reporting Entity," for determining the reporting entity includes oversight responsibility, fiscal dependency and whether the financial statements would be misleading if the component unit data were not included. Based on the above criteria, these financial statements will be included in the basic financial statements of Genesee County, as a discretely presented component unit of Genesee County.

The Road Commission Operating Fund is used to control the expenditures of Michigan Transportation Fund moneys distributed to the County, which are earmarked by law for street and highway purposes. The Board of County Road Commissioners is responsible for the administration of the Road Commission Operating Fund.

B. Government-wide and fund financial statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the activities of the Road Commission. The Road Commission consists solely of governmental type activities; no business type activities exist.

The statement of net assets presents the Road Commission's assets and liabilities with the difference being reported as either invested in capital assets, net of related debt, or unrestricted net assets.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include: (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment; and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes, if any and other items not properly included among program revenues are reported instead as general revenue.

Separate fund financial statements are provided for the operating fund. The operating fund is the only governmental fund (a major fund). The operating fund is an independent fiscal and accounting entity with a self-balancing set of accounts. Fund accounting segregates funds according to their intended purpose and is used to aid management in demonstrating compliance with finance-related legal and contractual provision. Major individual governmental funds are reported as separate columns in the fund financial statements.

Genesee County Road Commission
Notes to Financial Statements
September 30, 2007

I. Summary of Significant Accounting Policies (Continued)

C. Measurement focus, basis of accounting and financial statement presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Road Commission considers revenues to be available if they are collected within 90 days of the end of the current fiscal period due to the normal close out period the Road Commission employs. The following major revenue sources meet the availability criterion: state gas and weight tax revenue and interest associated with the current fiscal period. Conversely, special assessments will be collected after the period of availability; receivables have been recorded for these along with a "deferred revenue" liability.

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Michigan transportation funds, grants, permits, township contributions and interest associated with the current fiscal period are all considered to be susceptible to accrual and have been recognized as revenue of the current fiscal period. All other revenue items are considered to be available only when cash is received by the government.

When an expense is incurred for purposes for which both restricted and unrestricted net assets are available, the Commission's policy is to first apply restricted resources.

D. Assets, liabilities, and net assets or equity

Bank deposits and investments:

Cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with a maturity of three months or less when acquired. Investments are stated at fair value. Fair value is determined based on quoted market prices.

Receivables:

All trade receivables are shown net of an allowance for uncollectible amounts.

Inventories and prepaid items:

Inventories are valued at cost, as determined on the average unit cost method. Inventory items are charged to road construction and maintenance, equipment repairs, and operations as used. Inventories of governmental funds are recorded as expenditures when consumed rather than when purchased. Certain payments to vendors reflect costs applicable to future fiscal years and are recorded as prepaid items in both government-wide and fund financial statements.

Genesee County Road Commission
Notes to Financial Statements
September 30, 2007

I. Summary of Significant Accounting Policies (Continued)

D. Assets, liabilities, and net assets or equity (continued)

Capital assets:

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, and similar items), are reported only in the government-wide financial statements. Capital assets are defined by the Road Commission as assets with an initial individual cost of more than \$5,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost of purchase or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

GASB Statement 34 requires major networks and major subsystems of infrastructure assets acquired since September 30, 2001 be inventoried and capitalized by the fourth anniversary of the mandated date of adoption of the other provisions of GASB Statement No. 34. The Genesee County Road Commission has capitalized the current year's infrastructure, as required by GASB Statement 34, and has reported the infrastructure in the statement of net assets. The Road Commission retroactively capitalized the major infrastructure assets acquired on or before September 30, 2001, during the year ended September 30, 2006.

Depreciation:

Depreciation is computed on the straight-line method for all assets. The depreciation rates are designed to amortize the cost of the assets over their estimated useful lives as follows:

Building	30 to 50 years
Road equipment	5 to 8 years
Shop equipment	10 years
Engineering department	4 to 10 years
Office equipment	4 to 10 years
Infrastructure – roads	8 to 30 years
Infrastructure – bridges	12 to 50 years

Compensated absences (vacation and sick leave):

In accordance with contracts negotiated with the various employee groups of the Road Commission, individual employees have a vested right upon termination of employment to receive payments for unused personal leave and vacation under formulas and conditions specified in the contracts.

As a result, it is the Road Commission's policy to permit employees to accumulate earned but unused personal and vacation pay benefits. All personal and vacation pay is accrued when incurred in the government-wide financial statements. A liability for these amounts is reported in governmental funds only for employee terminations as of year-end.

Long-term obligations:

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

Genesee County Road Commission
Notes to Financial Statements
September 30, 2007

I. Summary of Significant Accounting Policies (Continued)

D. Assets, liabilities, and net assets or equity (continued)

Long-term obligations (continued):

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuance are reported as other financing sources while discounts are reported as other financing uses. Issuance costs are reported as debt service expenditures.

Fund Equity:

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

Deferred Revenue:

Deferred revenue is those where asset recognition criteria have been met, but for which revenue criteria have not been met. The deferred revenue relates to long-term receivables (mainly special assessments) which are unavailable to finance current year expenditures.

Use of estimates:

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the period. Actual results could differ from those estimates.

2. Stewardship, Compliance and Accountability

Budgetary procedures:

The Road Commission Manager/Director prepares from data submitted by the administrative staff a proposed operating budget for the fiscal year commencing October 1. The operating budget includes proposed expenditures and resources to finance them.

Prior to September 30, the proposed budget is presented to the Board of County Road Commissioners. The Board holds a public hearing and may add to, subtract from or change appropriations. The budget is then legally enacted through passage of a Board of County Road Commissioners Resolution. All amendments to the budget must have direct approval of the Board of County Road Commissioners.

The Road Commission's approved budget was adopted by departments for expenditures. This is the legally enacted level under the State of Michigan Uniform Budgeting and Accounting Act.

The departmental budget does not recognize revenues or expenditures in the accounting reporting format recommended by the Uniform Accounting Procedure Manual for Michigan County Road Commissions in that bond proceeds are not classified separately from revenues as other financing sources and expenditures are not classified separately as current, capital outlay and debt service. Also, the departmental budget does not recognize revenue credits as offsets against expenditures but, recognizes the amounts as revenue; and depreciation or depreciation credit is not recognized.

Genesee County Road Commission
Notes to Financial Statements
September 30, 2007

2. Stewardship, Compliance and Accountability (Continued)

Budgetary procedures (continued):

A reconciliation of the budgetary comparison schedules to the fund based statement of changes in fund balance is as follows:

	<u>Total Revenue</u>	<u>Total Expenditures</u>	<u>Fund Balance</u>
Balance per budgetary comparison schedules	\$56,040,297	\$51,021,222	\$57,447,029
Bond proceeds reported as revenues	(7,425,000)	-	-
Revenue credits	(5,536,072)	(5,536,072)	-
Balance per fund based statements	43,079,225	45,485,150	57,447,029

Michigan Public Act 621 of 1978, Section 18(1), as amended, provides that a governmental unit shall not incur expenditures in excess of the amount appropriated. The Road Commission complied with this requirement as reported on the Statement of Revenue, Expenditures and Changes in Fund Balance - Budget and Actual.

Budget violations:

Public Act 621 of 1978, as amended, requires budget amendments as needed to prevent actual expenditures from exceeding those provided for the budget. There were no budget violations for the year ended September 30, 2007.

3. Deposits and Investments

Michigan Compiled Laws section 129.91 (Public Act 20 of 1943, as amended), authorizes local governmental units to make deposits and invest in the accounts of federally insured banks, credit unions, and savings and loan associations that have offices in Michigan. The local unit is allowed to invest in bonds, securities, and other direct obligations of the United States or any agency or instrumentality of the United States; repurchase agreements; bankers' acceptances of United States banks; commercial paper rated within the two highest classifications, which mature not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivision, which are rated as investment grade; and mutual funds composed of investment vehicles that are legal for direct investment by local units of government in Michigan.

The Commission has designated two banks for the deposit of its funds. The investment policy adopted by the Board in accordance with Public Act 196 of 1997 has authorized investment in bonds and securities of the United States government and bank accounts and CDs, but not the remainder of State statutory authority as listed above. The Commission's deposits and investment policies are in accordance with statutory authority.

Genesee County Road Commission
Notes to Financial Statements
September 30, 2007

3. Deposits and Investments (Continued)

The Commission's cash and investments are subject to several types of risk, which are examined in more detail below:

Custodial credit risk of bank deposits:

Custodial credit risk is the risk that in the event of a bank failure, the government's deposits may not be returned to it. The government does not have a deposit policy for custodial credit risk. At year end, the Commission had \$40,561,998 of bank deposits (checking and high balance savings accounts) that were uninsured and uncollateralized. The Commission believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all deposits. As a result, the Commission evaluates each financial institution it deposits funds with and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

Credit risk:

State law limits investments in commercial paper to the top two ratings issued by nationally recognized statistical rating organizations. The Commission has no investment policy that would further limit its investment choices. As of year end, the credit quality ratings of debt securities (other than the U.S. government) are as follows:

<u>Investment</u>	<u>Fair Value</u>	<u>Rating</u>	<u>Rating Organization</u>
Bank Investment pool	\$8,662,429	Aaa	Moody's
Michigan Governmental MMF	308,541	Aaa	Moody's

4. Capital Assets

Capital asset activity of the Genesee County Road Commission for the current year was as follows:

	<u>Balance</u> <u>10-01-06</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>9-30-07</u>
Capital assets not being depreciated:				
Land	\$ 478,816	\$ -	\$ -	\$478,816
Construction in progress	2,112,683	502,998	2,112,683	502,998
Depletable assets	1,210	-	-	1,210
Subtotal	2,592,709	502,998	2,112,683	983,024

Genesee County Road Commission
Notes to Financial Statements
September 30, 2007

4. Capital Assets (Continued)

	<u>Balance</u> <u>10-01-06</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>9-30-07</u>
Capital assets being depreciated:				
Land improvements	\$ 589,765	\$ 410,897	\$ -	\$ 1,000,662
Buildings and improvements	7,963,684	237,329	-	8,201,013
Road equipment	19,166,176	3,911,486	1,938,180	21,139,482
Shop equipment	444,150	-	-	444,150
Engineering equipment	102,746	-	-	102,746
Yard and storage equipment	498,964	-	-	498,964
Office equipment	1,274,105	78,848	10,625	1,342,328
Lab equipment	13,408	-	-	13,408
Infrastructure – roads	246,847,889	16,094,513	-	262,942,402
Infrastructure – bridges	17,783,985	3,787,763	-	21,571,748
	<hr/>	<hr/>	<hr/>	<hr/>
Subtotal	294,684,872	24,520,836	1,948,805	317,256,903
	<hr/>	<hr/>	<hr/>	<hr/>
Less Accumulated depreciation:				
Land improvements	162,885	49,199	-	212,084
Buildings and improvements	4,108,901	319,316	-	4,428,217
Road equipment	15,201,315	2,394,092	1,936,154	15,659,253
Shop equipment	322,740	22,483	-	345,223
Engineers' equipment	88,564	3,418	-	91,982
Yard and storage equipment	496,145	2,255	-	498,400
Office equipment	922,011	92,628	7,145	1,007,494
Lab equipment	13,408	-	-	13,408
Infrastructure – roads	144,943,495	8,819,536	-	153,763,031
Infrastructure – bridges	3,678,737	472,749	-	4,151,486
	<hr/>	<hr/>	<hr/>	<hr/>
Subtotal	169,938,201	12,175,676	1,943,299	180,170,578
	<hr/>	<hr/>	<hr/>	<hr/>
Net capital assets being depreciated	124,746,671	12,345,160	5,506	137,086,325
	<hr/>	<hr/>	<hr/>	<hr/>
Total net capital assets	<u>\$127,339,380</u>	<u>\$12,848,158</u>	<u>\$2,118,189</u>	<u>\$138,069,349</u>

Depreciation was allocated to governmental functions as follows:

Primary road maintenance	\$ 9,097,912
Local road maintenance	2,962,653
State trunkline	<u>115,111</u>
Total	<u>\$12,175,676</u>

Construction Commitments - The Commission has active construction projects at year end. At year end, the Commission's commitment estimate is \$3,622,254.

Genesee County Road Commission
Notes to Financial Statements
September 30, 2007

5. Long-term Debt

The Road Commission has the following governmental activity long-term debt outstanding at September 30, 2007:

	Balance October 1, 2006	Additions	Reductions	Balance September 30, 2007
MTF notes	\$2,385,000	\$7,425,000	\$(1,060,000)	\$8,750,000
Capital leases	376,480	-	(70,726)	305,754
Total notes and leases	2,761,480	7,425,000	(1,130,726)	9,055,754
Compensated absences	386,558	585,468	(547,533)	424,493
Total long term debt	\$3,148,038	\$8,010,468	\$(1,678,259)	\$9,480,247

General obligations bonds and loans payable:

The outstanding bonds and notes payable at September 30, 2007, and matured interest thereon, are payable to the State of Michigan from the proceeds of state collected taxes returned to the Road Commission as Act 51 monies. In the case of default, the state treasurer is authorized to withhold future disbursements of Act 51 monies due the Road Commission until the defaulted payments are recovered by the state.

For the Michigan Transportation Fund notes, special assessments have also been levied on specific properties abutting certain road improvements. The collection of the assessments have been pledged as additional security for the payment of the bonds.

Significant details regarding the long-term debt are as follows:

Obligation Payable	Final Payment Due	Interest Rate or Range	Annual Principal Payment or Range	Outstanding Balance September 30, 2007	Due Within One Year
Michigan Transportation Fund notes:					
1998 Issue	August 1, 2008	3.80%	\$445,000	\$445,000	\$445,000
1999 Issue	August 1, 2009	5.00	75,000	150,000	75,000
2000 Issue	August 1, 2010	4.60 – 4.80	105,000	315,000	105,000
2001 Issue	August 1, 2011	3.75 - 4.20	125,000	500,000	125,000
2002 Issue	August 1, 2012	2.80 – 3.70	25,000	125,000	25,000
2006A Issue	August 1, 2016	4.00	160,000-295,000	2,300,000	220,000
2006B Issue	August 1, 2013	5.20-5.30	50,000-90,000	485,000	70,000
2007 Issue	September 30, 2017	3.75-4.00	385,000-525,000	4,430,000	385,000
Total notes				8,750,000	
Capital lease obligation				305,754	73,212
Compensated absences				424,493	424,493
				<u>\$9,480,247</u>	

Genesee County Road Commission
Notes to Financial Statements
September 30, 2007

5. Long-term Debt (Continued)

Future debt service requirements on bonds and notes:

		<u>Principal</u>	<u>Interest</u>	<u>Total</u>
Year ended	9-30-2008	\$1,450,000	\$ 325,742	\$ 1,775,742
	9-30-2009	1,020,000	296,380	1,316,380
	9-30-2010	970,000	254,333	1,224,333
	9-30-2011	895,000	214,733	1,109,733
	9-30-2012	795,000	178,758	973,758
	9-30-2013 - 9/30/2017	<u>3,620,000</u>	<u>415,970</u>	<u>4,035,970</u>
		<u>\$8,750,000</u>	<u>\$1,685,916</u>	<u>\$10,435,916</u>

Interest is payable on all obligations semi-annually. Principal is paid on an annual basis.

Act 143, Public Acts of State 1943, provides that total bonds and notes outstanding under this act cannot exceed 40% of the sum of the revenues derived from state collected taxes returned to the county for county road purposes for the last preceding five calendar years and not specifically allocated for other purposes. As of September 30, 2007, the Road Commission is within the statutory limit of Act 143.

6. Capital Leases

The Road Commission has entered into various lease purchase agreements to finance the acquisition of equipment with capitalized costs totaling \$1,010,275. These lease agreements qualify as capital leases for accounting purposes (agreement provides for either title transfer or bargain purchase option at end of the lease terms) and, therefore, has been recorded at the present value of future minimum lease payments as of the date of its inception.

Commitments under this lease agreement provides for minimum annual payments as follows:

<u>Years Ending</u> <u>September 30,</u>	<u>Principal</u> <u>(Present Value)</u>	<u>Interest</u>	<u>Total</u>
2008	\$ 73,212	\$ 10,550	\$ 83,762
2009	75,793	7,969	83,762
2010	78,473	5,289	83,762
2011	<u>78,276</u>	<u>2,607</u>	<u>80,883</u>
	<u>\$305,754</u>	<u>\$ 26,415</u>	<u>\$332,169</u>

Genesee County Road Commission
Notes to Financial Statements
September 30, 2007

7. Employee Pension Plan

Plan description

The Genesee County Road Commission participates in an agent multiple-employer defined benefit pension plan (Genesee County Employees Retirement System, also known as GCERS). The GCERS was organized pursuant to Section 12A of Act 156, Public Acts of 1851 (MSA 5.333(a); MCLA 46.12a), as amended. The GCERS is regulated under the Genesee County Employees Retirement System Ordinance, the sections of which have been approved by the State Pension Commission. The plan includes the following employer groups: Genesee County General & Sheriffs, Road Commission, Water and Waste Services, Community Mental Health, City of Mt. Morris, and the Genesee District Library. GCERS issues a publicly available annual financial statement that includes financial statements and required supplementary information. Copies of this report can be obtained by writing to the Genesee County Employees' Retirement System, 1101 Beach Street, Flint, Michigan 48502.

The plan covers all eligible full-time employees of the Road Commission. The Road Commission's membership at December 31, 2006 was comprised of 172 active participants, 218 retirants and beneficiaries, and 2 inactive but vested people (information regarding the number of active participants, which were fully or partially vested was not available). In general with some exceptions, all employees are eligible for normal retirement as follows:

- Age 60 with 8 or more years of service
- With 25 or more years of service, regardless of age

Normal retirement benefits for Road Commission employees are based on the final average compensation (FAC) of the highest 3 years out of the total credited service times the sum of 2.4% for each of the first 25 years of service, plus 1.0% for the years of service in excess of 25 years. The maximum financed portion is 75% of FAC.

Funding policy

Covered Road Commission employees are required under the plan and contractual provisions to contribute to the system between 3.0% and 6.0% of their annual compensation depending on their job classification. The Road Commission contributions are based on actuarially determined amounts. There were no loans outstanding from the GCERS to the Road Commission for the year ended December 31, 2006.

The Road Commission forwarded \$331,394 of pension contributions withheld from employees during the year ended September 30, 2007.

Actuarial assumptions

The significant actuarial assumptions used to compute the actuarial accrued liabilities in the most recent valuation are as follows:

Valuation date	December 31, 2006
Actuarial cost method	Individual entry-age
Amortization method	Level percent of payroll
Remaining amortization period for unfunded actuarial accrued liability	20 years
Asset valuation method	4 year smoothed market value
Investment rate of return	8.0%
Projected salary increases	5.00% to 9.03%
Includes inflation at	5.00%
Cost of living adjustments (COLA)	3.0% to 4.0%

Genesee County Road Commission
Notes to Financial Statements
September 30, 2007

7. Employee Pension Plan (Continued)

Annual pension cost

The Road Commission's Annual Required Contribution (ARC) and Annual Pension Cost (APC) for the year ended September 30, 2007 was \$1,702,705. All employer contributions made were equal to required contributions by GCERS. There was no accumulated Net Pension Obligation (NPO) at September 30, 2007. The Pension Cost for the three most recent years is as follows:

<u>Fiscal Year Date</u>	<u>Annual Pension Cost (APC)</u>	<u>% of APC Contributed</u>	<u>Net Pension Obligation</u>
09/30/05	\$1,549,087	100%	\$ -
09/30/06	1,652,590	100	-
09/30/07	1,702,705	100	-

The Plan's Schedule of Funding Progress and Schedule of Employer Contributions is summarized below:

Pension Plan
Schedule of Funding Progress

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets (a)</u>	<u>Actuarial Accrued Liability (AAL) (b)</u>	<u>Unfunded (Over Funded) AAL (UAAL) (b-a)</u>	<u>Funded Ratio (a/b)</u>	<u>Covered Payroll (c)</u>	<u>UAAL as % of Covered Payroll (b-a)/c</u>
12/31/04	\$50,114,352	\$60,180,454	\$10,066,102	83.3%	\$9,318,928	108.0%
12/31/05	53,344,328	61,212,184	7,867,856	87.1	9,314,227	84.5
12/31/06	57,309,294	61,930,724	4,621,430	92.5	9,290,790	49.7

8. Federal Grants

The Michigan Department of Transportation (MDOT) requires that road commissions report all federal and state grants pertaining to their county. During the year ended September 30, 2007, the federal aid received and expended by the Road Commission was \$4,748,618 for contracted projects and \$876,024 for negotiated projects. Contracted projects are defined as projects performed by private contractors paid for and administrated by MDOT (they are included in MDOT's single audit). Negotiated projects are projects where the road commissions perform the work and would be subject to single audit requirements if they expended \$500,000 or more negotiated projects. As a result, the Road Commission was required to have a single audit for the year ended September 30, 2007.

Genesee County Road Commission
Notes to Financial Statements
September 30, 2007

9. Summary of Disclosure of Significant Contingencies

Contingent liabilities:

The Road Commission participates in a number of agreements with the State of Michigan, by which the Road Commission receives advances and reimbursements per the agreements. These advances and reimbursements are subject to audit by the State of Michigan. The amounts, if any, which may have to be paid back to the state cannot be determined at this time, although the Road Commission expects such amounts, if any, to be immaterial.

10. Risk Management

Insurance Programs:

The Road Commission is exposed to various risks of loss related to property loss, torts, errors and omissions, and employee injuries (workers' compensation), as well as medical benefits provided to employees. The Road Commission has purchased commercial insurance for health care claims and participates in the Michigan County Road Commission Self-insurance Pool for claims relating to property loss, torts, and errors and omissions. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past five fiscal years.

The Michigan County Road Commission Self-insurance Pool program operates as a common risk-sharing management program for local units of government in Michigan; member premiums are used to purchase commercial excess insurance coverage and to pay member claims in excess of deductible amounts. The pool provides loss protection for automobile liability, errors or omissions liability, and all other bodily injury, property damage, and personal injury liability. The Road Commissions' exposure is limited to \$25,000 per claim.

The Road Commission is a member of the County Road Association Self-Insurance Fund for workers' compensation claims. As a member of the fund, the Road Commission is fully insured for workers' compensation claims incurred.

11. Post-employment Benefits

The Road Commission provides post-retirement healthcare benefits to substantially all retirees. The benefits are required to be paid via a contract. The expenditures are recorded on a pay-as-you-go basis. Currently, 205 retirees are eligible to receive the benefits. The expenditures for post-employment healthcare benefits amounted to \$2,320,629. The Commission obtains health care coverage through private insurers.

Upcoming reporting change:

The Governmental Accounting Standards Board has recently released Statement No. 45, *Accounting and Reporting by Employers for Postemployment Benefits Other Than Pensions*. The new pronouncement provides guidance for local units of government in recognizing the cost of retiree health care, as well as any "other" postemployment benefits (other than pensions). The new rules will cause the government-wide financial statements to recognize the cost of providing retiree health care coverage over the working life of the employee, rather than at the time the health care premiums are paid. The new pronouncement is effective for the year ending September 30, 2008. Management is currently assessing the impact of this new accounting standard on the Commission's financial statement for future reporting periods.

Required Supplemental Information

Genesee County Road Commission
Statement of Revenues, Expenditures, and Changes in Fund Balance -
Budget and Actual - General Fund
For the Year Ended September 30, 2007

	Original Adopted Budget	Final Amended Budget	Actual	Variance- Favorable (Unfavorable)
Revenues				
Federal revenues	\$ 11,137,508	\$ 5,744,100	\$ 5,721,881	\$ (22,219)
Michigan transportation fund	22,580,625	22,580,625	22,155,975	(424,650)
State highway funds	4,481,656	4,941,856	5,357,500	415,644
State revenue - Urban	8,590,336	1,908,500	1,872,222	(36,278)
County raised revenues	5,787,547	4,167,000	4,134,304	(32,696)
Other revenues	14,503,414	16,812,814	16,710,986	(101,828)
Miscellaneous	275,000	90,000	87,429	(2,571)
Total revenues	67,356,086	56,244,895	56,040,297	(204,598)
Expenditures				
Department:				
Engineering	1,329,334	1,270,334	1,198,510	71,824
Maintenance	10,009,352	9,776,352	9,571,625	204,727
Trunkline	4,030,077	4,233,577	4,190,182	43,395
State Specials	294,779	208,279	201,439	6,840
Equipment	6,016,791	5,908,945	5,706,107	202,838
Traffic engineering and permits	2,413,524	2,241,799	2,177,155	64,644
Personnel	275,906	275,906	257,568	18,338
Finance	493,916	493,916	418,855	75,061
Commissioners	20,210	21,510	21,228	282
Administration	415,998	415,998	374,967	41,031
Information systems and planning	346,771	315,171	307,158	8,013
Non-departmental	12,967,080	9,794,519	8,387,360	1,407,159
Road construction	31,017,728	18,367,728	18,209,068	158,660
Total expenditures	69,631,466	53,324,034	51,021,222	2,302,812
Excess (deficiency) of revenues over expenditures	(2,275,380)	2,920,861	5,019,075	2,098,214
Fund Balance - Beginning of year	52,427,954	52,427,954	52,427,954	-
Fund Balance - End of year	\$ 50,152,574	\$ 55,348,815	\$ 57,447,029	\$ 2,098,214

Other Supplemental Information

Genesee County Road Commission
Statement of Revenues, Expenditures, and Changes in Fund Balances
General Operating Fund (by Road Fund)
For the Year Ended September 30, 2007

	Primary Road Fund	Local Road Fund	County Road Fund	Totals
Revenues				
Permits	\$ -	\$ 11,723	\$ 74,786	\$ 86,509
Intergovernmental:				
Federal sources	5,194,241	430,403	97,237	5,721,881
State sources	17,835,810	6,192,387	-	24,028,197
Local sources	1,201,779	2,614,872	369,389	4,186,040
Charges for services	4,958,253	-	59,465	5,017,718
Interest and rents	2,577,739	145,099	8,737	2,731,575
Other	256,145	1,029,500	21,660	1,307,305
Total revenues	32,023,967	10,423,984	631,274	43,079,225
Expenditures				
Construction	393,622	50,463	-	444,085
Heavy maintenance	10,784,906	8,703,747	-	19,488,653
Maintenance	5,901,698	7,562,717	-	13,464,415
State trunkline	4,391,582	-	-	4,391,582
Equipment - Net	967,196	916,811	215,399	2,099,406
Administrative	1,586,494	1,515,595	-	3,102,089
Other	43,414	560,277	372,819	976,510
Capital outlay - Net	182,176	-	-	182,176
Principal retirement	-	1,060,000	70,727	1,130,727
Interest and fiscal charges	-	192,472	13,035	205,507
Total expenditures	24,251,088	20,562,082	671,980	45,485,150
Excess (deficiency) of revenues over expenditures	7,772,879	(10,138,098)	(40,706)	(2,405,925)
Other Financing Sources (Uses)				
Capital leases	-	7,425,000	-	7,425,000
Optional transfers	(2,740,794)	2,740,794	-	-
Total other sources (uses)	(2,740,794)	10,165,794	-	7,425,000
Excess (deficiency) of revenues and other sources over expenditures and other uses	5,032,085	27,696	(40,706)	5,019,075
Fund Balances (Deficit) - Beginning of year	51,654,495	934,607	(161,148)	52,427,954
Fund Balances (Deficit) - End of year	\$ 56,686,580	\$ 962,303	\$ (201,854)	\$ 57,447,029

Note: Beginning of year fund balance has been reclassified between Primary and Local by \$432,000.

**Genesee County Road Commission
Schedule of Revenues and Other Sources
General Operating Fund
For the Year Ended September 30, 2007**

Revenues	
Permits	\$ 86,509
Federal sources:	
Federal aid:	
Urban including STP	3,286,338
Bridge	2,406,045
High priority	29,498
Total federal sources	5,721,881
State sources:	
Michigan Transportation Fund	
Engineering	10,000
Urban roads	3,876,974
Allocation	20,141,223
Total state sources	24,028,197
Local sources:	
City and village contributions	1,115,697
Township contributions	2,708,666
Other contributions	361,675
Total local sources	4,186,038
Charges for services:	
Trunkline maintenance	4,756,816
Trunkline non-maintenance	201,438
Salvage sales	36,448
Other	23,018
Total charges for services	5,017,720
Interest and rents:	
Interest earned	2,714,804
Property rental	16,771
Total interest and rents	2,731,575
Other:	
Special assessments	1,029,500
Gain on equipment disposal	256,145
Other	21,660
Total other	1,307,305
Total revenues	43,079,225
Other Financing Sources	
County appropriation	-
Note proceeds	7,425,000
Total other financing sources	7,425,000
Total Revenues and Other Sources	\$ 50,504,225

**Genesee County Road Commission
Schedule of Expenditures
General Operating Fund
For the Year Ended September 30, 2007**

Expenditures

Construction:	
Primary roads and structures	\$ 393,622
Local roads and structures	50,463
Total construction	<u>444,085</u>
Heavy maintenance:	
Primary roads and structures	10,784,906
Local roads and structures	3,966,639
Special assessments	4,737,108
Total heavy maintenance	<u>19,488,653</u>
Maintenance:	
Primary roads and structures, winter and traffic control	5,901,698
Local roads and structures, winter and traffic control	7,562,717
Total maintenance	<u>13,464,415</u>
State trunkline:	
Trunkline	4,190,144
Special	201,438
Total state trunkline	<u>4,391,582</u>
Equipment:	
Direct	3,939,082
Indirect	2,271,101
Operating	997,152
Less - Equipment rental	(5,107,929)
Total equipment	<u>2,099,406</u>
Administrative:	
Administration	3,524,728
Less - Handling charges	(3,405)
- State maintenance overhead	(399,246)
- Purchase discounts	(19,988)
Total administrative	<u>3,102,089</u>
Other	<u>976,510</u>
Capital outlay:	
Land improvements, building and equipment	3,037,133
Less - Depreciation/depletion	(2,849,453)
- Equipment retirement	(5,504)
Total capital outlay	<u>182,176</u>
Debt service:	
Principal retirement	1,130,727
Interest and fiscal charges	205,507
Total debt service	<u>1,336,234</u>
Total expenditures	<u><u>\$ 45,485,150</u></u>

Report on Internal Control

March 28, 2008

To the Board of Commissioners
Genesee County Road Commission
Genesee, Michigan

Dear Board of Commissioners:

Beginning with this year's audit, national auditing standards now call for auditors to communicate matters to the governing body that may be useful in its oversight of the Commission's financial management. Specifically, they require us to report internal control issues to the governing body that may be relatively minor, in order to allow it to evaluate their significance, and make any changes it may deem appropriate. In general, these are items that would have been discussed orally with management in the past. The purpose of these new standards is to allow the governing body an opportunity to discuss issues when they are relatively minor, rather than waiting until they become more serious problems. We hope this new Report on Internal Control will be helpful to you, and we look forward to being able to discuss any questions you may have concerning these matters.

In planning and performing our audit of the financial statements of Genesee County Road Commission (the "Commission") as of and for the year ended September 30, 2007, in accordance with auditing standards generally accepted in the United States of America, we considered the Commission's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Commission's internal control. Accordingly, we do not express an opinion on the effectiveness of the Commission's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control that we consider to be significant deficiencies and other deficiencies that we consider to be material weaknesses.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of

control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the following deficiencies to be significant deficiencies in internal control:

General Bank Account Reconciliation – We noted that the bank reconciliation for the general bank account at year end was not performed on a timely basis. While the reconciliation was completed prior to the end of our fieldwork, this period of time was five and one-half months after year end. The bank reconciliation is a key procedure to assure that the general ledger balance of the bank account is properly stated. This comment is a repeat comment that was reported to the Board of Commissioners in a letter dated March 15, 2007.

Road Project Final Accounting Procedures – The process for the final accounting for road projects (with the exception of projects with force account work) appears to have improved from conditions that existed the prior year. However, we still believe there could be improvements made to the timeliness of the completion of the final accounting and billings for projects. With regards to force account work (i.e. costs incurred by the Commission that can be charged directly to federal projects, namely inspection and engineering), we noted that the responsibility for the compilation of project cost data and the preparation of reimbursement requests to submit to the MDOT flipped between the Finance Department and the Engineering Department during fiscal year 2007. We became aware that there were many issues with the reimbursement requests prepared during the year (i.e. duplication of reimbursement requests, etc.) such that this area was one of the key reasons why the Commission could not timely finalize the accounting for fiscal year 2007. We recommend that the both the Finance Department and the Engineering Department work closely together to compile data and prepare reimbursements for the force account work as well as billings for other projects to insure timeliness. Relative to project final accounting and billings, this comment is a repeat comment that was reported to the Board of Commissioners in a letter dated March 15, 2007.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control. We believe that the following deficiencies constitute material weaknesses.

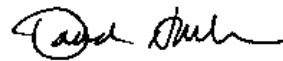
Year End Closing Procedures – The lack of timeliness of the year end close process (i.e. for 2007 it was five and one-half months after year end) creates an inherent weakness with financial monitoring of the ensuing fiscal year by the Commission's management and the Board. Without current fiscal reports, such as budget vs. actual reports, to review, the Board and management are not able to effectively monitor the financial activity of the Commission. The board and management are not able to effectively perform financial monitoring activities during the period of time that reports are not available.

Other Internal Control Recommendations – We did note one additional item that we did not consider to be a significant deficiency or material weakness as defined above, but we believe that consideration should be given to implementing the procedure that would further enhance the controls over the recordkeeping of capital assets. We recommend the Commission to ensure that the detail schedules of capital assets include a reconciliation to general ledger balances. The detail schedules provided during the audit were overstated due to not being updated for asset disposals of the current year. The capital asset summary accounts in the general ledger were properly stated, but they didn't agree to the totals of the supporting detail schedule.

This communication is intended solely for the information and use of management, the Board of Commissioners, and others within the organization and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

Plante & Moran, PLLC

A handwritten signature in black ink, appearing to read "Tadd Harburn", written in a cursive style.

Tadd Harburn, Partner

March 28, 2008

To the Board of Commissioners
Genesee County Road Commission

We have audited the financial statements of Genesee County Road Commission for the year ended September 30, 2007, and have issued our report thereon dated March 28, 2008. Professional standards require that we provide you with the following information related to our audit.

Our Responsibility under U.S. Generally Accepted Auditing Standards

As stated in our engagement letter dated November 26, 2007, our responsibility, as described by professional standards, is to express an opinion about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles. We are responsible for planning and performing the audit to obtain reasonable, but not absolute, assurance that the financial statements are free of material misstatement. As part of our audit, we considered the internal control of the Genesee County Road Commission. Our consideration of internal control was solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

We are responsible for communicating significant matters related to the audit that are, in our professional judgment, relevant to your responsibilities in overseeing the financial reporting process. However, we are not required to design procedures specifically to identify such matters and our audit of the financial statements does not relieve you or management of your responsibilities.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by Genesee County Road Commission are described in Note I to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during 2007.

There are no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimate affecting the financial statements was the estimate of useful lives for capital assets.

Useful lives of capital assets are based upon management's estimate of their life. We evaluated the key factors and assumptions used to develop the estimate of useful lives in determining that it is reasonable in relation to the financial statements taken as a whole.

The disclosures in the financial statements are neutral, consistent, and clear.

Difficulties Encountered in Performing the Audit

Generally, the separate audit for the Road Commission is due to the State Department of Treasury within six months after year end which in the case of the Road Commission is by March 31. (Note- this may have been changed to five months based on the recent legislative changes to the Public Acts, however, for Road Commissions this change is not totally clear). In addition, the Road Commission's audited activity needs to be rolled into Genesee County's Comprehensive Annual Financial Report by the end of February in order that the County's CAFR can be completed and submitted to the State by March 31. Due to the long process to close out the year end the initial audit fieldwork could not be scheduled until the week of February 24, 2008. Also, due to the special difficulties that management encountered with the reconciliation of the force account work for the fiscal year the audit fieldwork could not be totally completed, and the audit report prepared for review by the firm's Professional Standards group until March 28, 2008. The report was uploaded to the State on March 31, 2008. We recommend that the year end close out process be reviewed to determine how changes can be made to allow for a more timely closing of the year end. While concerns exist with the timeliness of the close-out process, it should be recognized that the quality of the accounting records is excellent.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. There were no known uncorrected misstatements of the financial statements.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated March 28, 2008.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the organization's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants

Other Audit Findings or Issues

In the normal course of our professional association with the organization we generally discuss a variety of matters, including the application of accounting principles and auditing standards, business conditions affecting the organization, and business plans and strategies that may affect the risks of material misstatement. None of the matters discussed resulted in a condition to our retention as the organization's auditors

Other Information in Documents Containing Audited Financial Statements

Our responsibility relates to the organization's financial statements and other information as identified in the auditor's report. We have no responsibility for any other information that may be included in documents containing those audited statements. We do not have an obligation to perform any procedures to corroborate other information contained in these documents. We read the management's discussion and analysis and budgetary comparison schedules and nothing came to our attention that caused us to believe that such information, or its manner of presentation, is materially inconsistent with the information or manner of its presentation appearing in the financial statements.

Other Information

New Auditing Standards

The AICPA has issued Statements on Auditing Standards 104 to 111 that will substantially affect the auditing process. The effective date for implementation is for period beginning on or after December 15, 2006 (the September 30, 2008 audit for the Road Commission). These new rules, which are known collectively as the new Risk Assessment Standards, significantly change the procedures auditors must perform in all financial statement audits. Under these new rules, auditors will be required to:

- More thoroughly examine and evaluate clients' accounting processes and controls, including the overall control environment, key controls over significant transactions, and the quality of internal oversight of the financial reporting process
- More thoroughly assess and document conditions in clients' systems and processes that create risks of material misstatement in their financial statements and perform additional testing in response to these risks
- Design and perform more analytical tests of accounting and financial data
- Apply more stringent standards in identifying, assessing, and communicating internal control deficiencies
- Communicate more information about the results of the auditor's work to individuals involved in overseeing strategic direction and accountability for operations

As a practical effect of these new rules, auditors will need to make more detailed and specific requests for information from clients, particularly about processes and controls, and clients will need to do more work to be well prepared for their audits. The new rules will also require increased audit testing and more thorough auditing procedures and will increase the amount of related documentation that auditors must prepare and maintain.

Plante & Moran, PLLC began analyzing these new standards and incorporating the necessary changes into our audit process and tools more than a year ago. It is clear that the new rules will require us to perform more audit procedures than we have in the past. Over the past several months, our firm has been investing heavily to implement our new audit methodology and train our staff on these changes. Our goal is to have our staff trained and working with our clients to prepare for the transition to these new rules well in advance of the required implementation date.

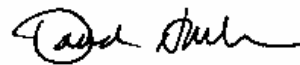
As we move forward, we will be communicating with you regularly about matters that will affect your next financial statement audit. In addition, we plan to begin to work with you during the upcoming year in a number of areas, including review and documentation of your internal accounting procedures and controls, to ensure a smooth transition to these new standards. We will be in contact with you in the near future to discuss these matters in more detail.

The primary objective of these new rules is to strengthen and enhance the independent audit of financial statements, including more thorough evaluation and information about your internal accounting and financial reporting processes and controls. We believe that these new rules and the additional communications you will receive from us about the results of our audit work will enhance the value you receive from your financial statement audit.

This information is intended solely for the use of the Board of Commissioners and management of Genesee County Road Commission and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

Plante & Moran, PLLC

A handwritten signature in black ink, appearing to read "Tadd Harburn", written over a horizontal line.

Tadd A. Harburn, CPA